HOW DOES THE DEMOCRACY AFFECTS THE MULTINATIONAL CORPORATIONS PRESENCE? THE CASE OF FDI IN ROMANIA

Laura Brancu[*]

Abstract:

The foreign direct investment (FDI) towards the Central and Eastern European Countries (CEECs) opens us, in the current context of the globalization, a particularly rich field of research. Closed before 1990 for the foreign capital entries, the CEECs now attracts important volumes of FDI. Many governments from these countries offer important incentives to attract more FDI, motivated by the positive effects expected to rise on the local economy.

This paper will concentrate on the Romanian case. There is large body of the literature who emphasize that institutional factors, like democracy, the political stability, the rule of law and the lack of corruption are important elements for foreign investors. By exploiting the results of our survey on the French firms installed in Romania, this paper try to analyze the role of these institutional factors for attracting the foreign firms in Romania.

Keywords*:* foreign direct investment, Central and Eastern European Countries, Romania, institutional environment, democracy.

JEL Classification: C31, C33, F21, F23.

Introduction

After the fall of the Berlin's wall, the entries of foreign direct investments (FDI) to CEECs knew an important growth. The inward FDI flows received by this group of countries had pass from 2.5 billions dollars at the beginning of their transition to 66.5 billions in 2007 (according to the statistics of UNCTAD, WIR 2008). This tendency represents the logical result of liberalization in these countries, liberalization which is one of the most important reforms realized in the context of the their systemic transformation after 1990. By following the liberalization way, the governments of CEECs encouraged the FDI entries for taking advantage of the global and national benefits that they can bring. Effectively, in the current context of the globalization, the FDI is generally seen as the most dynamic international flow of resources towards developing countries (UNCTAD, WIR, 1999) susceptible to contribute to the process of their convergence.

In this paper we are going to concentrate on the Romanian case. Because the statistical data on FDI indicate the marginal position of Romania compared to the other CEECs, we are going to search whether democracy affects FDI in Romania;

[*] Laura Brancu is Assistant Professor of Comparative Management at the Universitatea de Vest in Timişoara. e-mail: laurabrancu@yahoo.co.uk

whether the slowness in the progress registered by Romania on its way towards democracy influenced the entries of the foreign firms.

The point of departure of our study was the classification realized by Freedom House (*Nations in Transit*) who classifies Romania in last position comparative to the other CEECs as regards its progress towards democracy. So, according to Nation in Transit Report (NIT 2006 Romania : 1) Romania is described as the country of the region who live the most difficult political transition and the most expensive economic transition and who (according to the methodology of Freedom House) is still classified in the category of "semi consolidated democracies". Whereas the other countries of the region are integrated in the "consolidated democracies" category[4]. In spite of all the critics which we can do concerning this type of country-rating based on composite index (critics which will be developed later in this paper), the Freedom House report give us a useful point of departure as far as it compares the progress realized in the change towards democracy by the country of the region. So, according to the quoted source, in 1999, from the time of the Commission invitation to join European Union, Romania still had important structural reforms to carry out, comparative to the other CEECs which already implanted them at the beginning of 1990s.

In these conditions, we are going to study in which measure the delays registered by Romania in its road towards a stable and fair institutional environment, towards the democratic change, can explain its marginal position in term of attractiveness for the FDI.

This paper will be organized as following: a review of the literature (1) on the role of the institutional stability in general and of the democracy in particular, as factors of attractiveness for the FDI, will be followed by a presentation of our survey on the French firms implanted in Romania (2). The results of our survey (3) and the conclusions will finish this paper.

1. Review of the literature on the role of the institutional stability as factor of attractiveness for the FDI

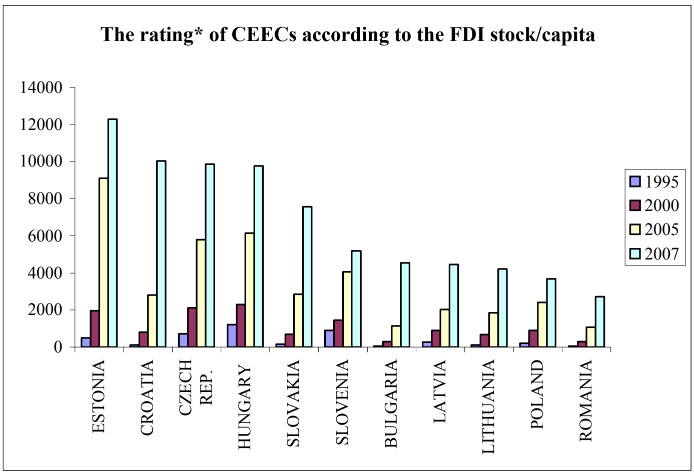
The opening of the CEECs towards the foreign investments joins the new paradigm of the globalization, that of the attraction and the promotion of the FDI, who gradually started in the 1980s (Michalet 1999). If until the seventies, in the context of internationalization process, the multinational enterprises (MNEs) was struggled to invest in certain territories and so the excess of the offer of FDI determined the MNEs to tried to take advantage of the opportunities offered by the new developing countries, in the1980s, with the globalization, the MNEs are the one who put in competition the national territories. In front of a increased demand for the FDI, the MNEs becomes more and more selective in their choice of localization. As their capacity of evaluation and selection strengthened, the consequence is the classification of territories according to their attractiveness for the FDI. So we find

[4] with the exception of Bulgaria, classified in the same category as Romania, but with a final score for the democracy better than Romania.

on one side the most attractive countries, who receive the most of the FDI, and the other side the so called " peripheral countries " who attract a number limited of foreign firms, on the ground of the ownership of an abundant factor (natural resources, not qualified work, etc.). From this point of view, the CEECs offers an original field of investigation to study the phenomenon of the FDI, even if their homogeneity due to their historic common inheritance tends to become blurred in time, under the influence of the strategies adopted in the transition to the market economy.

Indeed, in spite of the fast growth of the FDI inflows in these countries, important is to notice that the 575 billion dollars received in the form of FDI between 1991 and 2007 know an uneven distribution between the countries of the zone, which were nevertheless in similar conditions at first. The observation of the more complex indicators (see exhibit 1), who take into account the economic weight of the host country, like the FDI stock per capita testifies that next to countries as Estonia, Croatia, Hungary, Czech Republic, which knew how to attract important amounts of FDI, appear other countries like Romania or Bulgaria, marked by relatively weak performances[5] .

Exhibit 1.



*the rating is based on 2007 FDI stock/capita (en dollars)

Source : our calculations based on WIR statistics.

Because the statistical data on FDI indicate the marginal position of Romania compared to the other CEECs, we are going to search whether democracy affects FDI in Romania; whether the slowness in the progress registered by Romania on its way towards democracy influenced the entries of the foreign firms.

Both economic performances of an economy along time, and the choices of foreign investors, are strongly influenced by its political, social and institutional environment. A fair, stable, transparent and efficient law system, which defends and

[5] For a more detailed presentation, see Brancu (2008).

respect private property and individual rights; also honest public institutions and governmental policies favorable for market economy, represent conditions that support foreign capital inputs (Andreff and Andreff 2002; Gastanga et al.1998; Globerman and Shapiro 2002; Michalet 1999; Baniak et al. 2002; Wheeler and Mody 1992). These elements play a highly important part in the implantation decision because they influences the quality of the business environment and acts as a necessary condition preceding any input of foreign capital. Sethi et al. (2002:692) named them "basket of pre-requisites" which guarantees for the health of the business and investment environment; Globerman and Shapiro (2002:19) use the term "governance infrastructure"

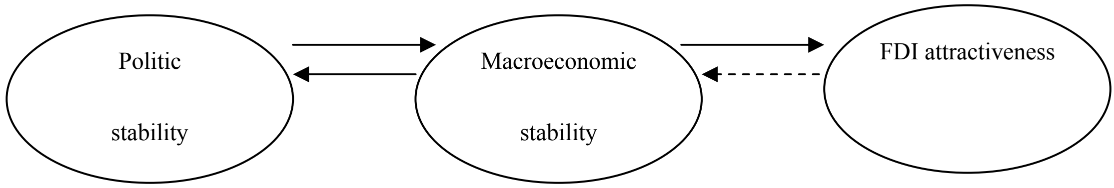
The stability of institutional environment is often considered by economic studies as a stimulating factor for FDI. We can say that stability, which reduces incertitude over economy evolution in the host country, is a primary determinant for investments generally and specially for long term foreign investors (in contrast with short term speculative capital movements). In this paper, this stability will be appreciated through the politic stability, the Rule of law, corruption and the democracy.

Political stability

Political stability is an important factor in the foreign implantation decision, especially in the case of developing or transition economies. On this ground, this variable is sooner found in studies focused on analyses of these economies rather than those on developed countries. Although most of the analyses results confirm the presence of negative correlation between political risk and FDI inputs (Sun, 2002 ; Bandlej, 2002 ; Pan, 2003 ; Zhao, 2003 ; Habib and Zurawicki, 2001 ; Globerman and Shapiro, 2002 ; Shingh and Jun, 1995), the relation between these two variables is not totally understood: some of the studies emphasize either the absence of the relation (Akinkugbe, 2003 ; Asiedu, 2002 ; Chakrabarti 2001 ; Lemi, 2003) or the change in the correlation in time (Loree and Guisinger, 1995) (see Table 1.).

The difference between studies results are largely connected with the diversity of the sources and variables used for the politic instability measurement. In this way, most authors use either a limited number of variables or the composite index. Besides, authors often complain about the lack of available data, especially for developing countries, which makes them to use the index published by international organizations or consulting offices. Interpretation of studies results is more delicate as the direction of the casualty between politic stability and entrances of FDI is not univocal (exhibit 2).

Exhibit 2. A possible relations between politic stability and FDI attractiveness



So, we find that politic instability appears to be a very complex phenomenon and that the large number of variables used for measuring can only present some of the aspects that characterize it, without describing it totally.

Rule of law

One of the most important aspects used in explaining the economic performances of a country is the quality of its institutions. Especially for developing countries, institutional background is extremely important, because the presence of the rule of law is a key element of a functional market economy. The absence of arbitration, the existence and respect the law, the equality before the law, give to citizens, but also to foreign investors the guarantee of their property and their income, and allow them to make long term plans. In case of developing countries, these variables influence growth potential (Barro 2000:18). Respect for the rule of law becomes a determinant of FDI attractiveness, not only because it stimulates growth, but also because no investor would be determined to involve himself in FDI if he is not sure he can benefit of the fruits of his capital.

The small number of empirical studies which analyses the relation between the rule of law and FDI is explained essentially by the difficulties in measuring. As in the case of political stability, the empirical works use some compromise solutions: (1) integration of “rule of law” variable in the evaluation of country risk; (2) use of index made by specialists, international organizations or consulting offices. Despite both solution’s limits (the difficulty to isolate the impact exerted only by “rule of law” variable in the first case, and the subjectivity of the classification performed on the basis of composite index in the second case), the studies results show a positive correlation between law respect and FDI inputs (according to Table 1.).

So we see that empirical verifications identified in economic literature (Globerman and Shapiro, 2002; Gastanaga et al., 1998; Smarzinska, 2000) conclude unanimously on the existence of a positive correlation between respect for the rule of law and FDI inputs. The biographic analysis allowed us to observe that in numerous studies, rule of law is analyzed trough variables like corruption, we will study next.

Corruption

There is a wide consensus that the corruption represents an obstacle to the economic, social and political development of a country. Corruption prevents the good functioning of the market, affects the foreseeable of the economic and financial policies of the government and affects the quality of public services. The corruption dissuades the foreign investments and allocates the loans and the grants to projects little useful for those who are supposed to be beneficiary, but extremely profitable for the corrupt decision-makers. Corruption increases the transaction costs because is an element of unforeseen and arbitrary power, which raises problems to the investors (Habib and Zurawicki, 2001).

Although the integration of the corruption in the analysis turns out to be essential to understand the FDI flows, in particular towards the developing and transition country like CEECs, its evaluation is however difficult. The empirical works uses again the composite index. Taken as explanatory variable much more often for the FDI towards the developing countries than towards the developed countries, the results of the studies on the correlation between the corruption and FDI are not always unanimous (according to table 1.). Some works who studied the impact of the corruption on the attractiveness of the developed countries finds either the absence of the correlation, either a positive link, contrary to what is predicted. Nevertheless, the studies limited to the developing countries or only to the CEECs had more homogeneous conclusions which indicate that the corruption affects negatively the perception of the country-risk, which in his turn, affects the FDI (Gastanga et al., 1998 ; Bevan et Estrin, 2000).

Democracy

The democracy is considered by numerous specialists as an important determinant for the FDI. A democratic regime which allows to strengthen the rule of law and to facilitate the growth by the stimulation of the private initiative is perceived as a factor who attract FDI. However, the MNEs are criticized, especially in the 1970s, to damage the economic sovereignty of developing countries and to collaborate with repressive regimes (Busse, 2003). Non-governmental organizations often accuse the MNEs for locate in countries who present a weak rule of law, a not independent justice and a large scale of corruption, just to be able to impose hard working conditions and small salaries. We so observe that the link between the character more or less democratic of a developing country and the flows of FDI which it receives generate diverse and often contradictory interpretations.

The ambiguities linked to the correlation between the more or less democratic character of developing countries and FDI which they receive appear in the interpretation of the empirical results. The empirical studies that analyze the correlation between democracy and FDI are quite scarce, and focus only on the developing countries case. The exclusion of developed countries is obvious, because they are also strong democracies as well (Alesina and Perotti, 1994). The result of these studies show a positive connection between democracy and FDI (according to table 1.).

Table 1.

Studies results regarding the impact of institutional stability on FDI inputs

Variable	Number of studies	Correlation		
		Yes		No
		Positive	negative	
Political stability	7 on developing countries (*from which 1 on CEECs)	- -	5 (1)	2 -
	5 mixed (developed and developing countries)	-	3	2
Rule of law	2 on developing countries (*from which 1 on CEECs)	2 (1)	- -	- -
	1 mixed (developed and developing countries)	1	-	-
Corruption	3 on developing countries (*from which 1 on CEECs)	- -	3 (1)	- -
	3 mixed (developed and developing countries)	1	2	-
Democracy	2 on developing countries (*from which 1 on CEECs)	2 (1)	- -	- -

Source: our bibliographic research.

Besides the fact that it favors the existence of a rule of law, democracy is analyzed by the economic studies because of his positive impact assumed to have on growth. However, the specialist opinions are not unanimous on the role of democracy on growth. On one side, we have the opinions that consider that political freedom favors economic rights and so stimulates growth. On the other side, the is the opinion that democracy slows down growth, because it allows the redistribution of income from the rich to the poor – in „ majority of voters" systems. On the other hand, it's not always the non-democratic regimes that stop economic freedom (for example the authoritarian regimes in Chile and Peru). Empirical research seems to acknowledge the first hypothesis. So, if Barro (2000) indicates the presence of a weak and non-linear relationship (U- turned), between democracy and growth, De Melo and others (1996), on the other hand, obtain a positive relationship between democracy and growth in 26 countries that are in a transition process. The result is partially sustained by the Freedom House Report (1999), *Nations in Transit*, that divides transitioning countries in three categories, varying by their development rates (information updated in 1997):

- Consolidated democracies : Czech Republic, Latvia, Lithuania, Poland, Slovenia, with a growth rate of 4.7%
- Societies in transition: Albania, Armenia, Azerbaijan, Bosnia- Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Macedonia, Moldavia, Mongolia, Romania, Russia, Slovakia, Ukraine, with an average growth rates of 1.4%

- Consolidated autocracies: Belarus, Tajikistan, Turkmenistan, Uzbekistan, with an economic downfall of 2.8%

All these observations that have a tendency to confirm a nonlinear relationship, guide us to believe that the stability of a political regime is the one that determines growth.

A long term analysis of the democracy- FDI relationship also confirms a non-linear correlation, despite the fact that some studies show that FDI are attracted to countries where democracy is respected (Rodrik, 1996; Harms and Ursprung 2002, quoted by Busse, 2003). Busse (2003) which study a long period of time (1972-1998) offers an original illustration of the impact of the strategic orientations on the link between democracy and FDI. Busse's study shows a strong correlation between *Freedom House* index (public rights index and civil rights index) and the FDI/capita inputs between 1980 and 1998. His results for period after 1980 indicate that (*ceteris paribus*) the more democratic countries receive more FDI. But for period 1972-1980, the correlation is not significant. The explanation consists in saying that during this period, the MNEs principal objective was the search for natural resources and to have access to these it was obliged to cooperate with the oppressive regimes. This interpretation is verified by the introduction of a dummy variable for the impoverishment of mining resources. The correlation is significant for period 1972-1980. The result goes in the direction of the critics against the MNEs, formulated by certain non-governmental organizations (we can find here the accusations brought to MNEs, presented at the beginning of the paragraph). But other authors question these results ; according to Harms and Usprung, the foreign investors are not attracted by non democratic countries but by those where political and civil freedom is respected.

The variety of the conclusions may be bond (except for the differences referring to the mentioned recorded period) to the difficulties encountered in the process of measuring democracy. From the methodological point of view, these studies show the same weaknesses like the ones shown in the case of political stability and rule of law. Truly, measuring democracy is not an easy task. As the *Dictionnaire d'économie et de sciences sociales*[6] defines, *democracy is „a political system in which power comes from the people and belongs to the people"*[7]. In this case, democracy includes (1) public freedom (the right to participate in politics, the plurality of political parties, universal vote, regular elections, and the separation of state powers) and (2) civil freedoms (freedom of speech, freedom of association, right to autonomy, etc.)

This definition is difficult to use in empirical studies. The studied phenomenon is so complex that a selection of the variables that define it is needed, according to their quantifying or non-quantifying character. Given this restriction, the empirical studies have two solutions: (1) either they only mention the importance of certain institutional variables, without taking account of them during the analysis, (2) either

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[6] J.-Y. Capul, O. Garnier (1993), *Dictionnaire d'économie et de sciences sociales,* Hatier, Paris, p. 114

[7] In french *« un système politique dans lequel le pouvoir émane du peuple et appartient au peuple dans son ensemble ».*

they use the composite indexes made by consulting companies or non-governmental organizations (*Heritage Foundation, Economist Intelligence Unit, Economic Freedom).* But given the fact that these indexes are build differently, covering more aspects of the studied phenomenon, for a larger number of countries and for longer periods of time, generalizing the results is extremely difficult.

Otherwise, Bollen and Paxton (2000), while analyzing the indexes for the appraisal of democracy and political freedom, draw our attention to the errors that might appear while building the composite index based on the opinions of certain specialists. Firstly because their can be errors in collecting the information, because the specialists are using data from Anglo-Saxon publications. Secondly because the specialists usually confuse the criteria in which the variable is defined, with explanatory variables[8]. Finally, because the importance given to different criteria are often influenced by personal judgment. Given these reasons, empirical result do not succeed in being convincing and cannot clearly explain if certain criteria are or are not significant in explaining FDI. On the same pattern, Debonneuil and Fontagne (2003) draw the attention to the weakness of the theoretical bases and the statistical methods of the competitively indexes, that, when used for world classifications may lead analysts to contradictory results. The authors quote the example of France, that following the competitiveness report made by World *Economic Forum* and *International Institute for Management Development*, is situated on a relatively bad position (between 12th and 20th place, in 2001), when the FDI inputs in France had risen significantly in that period, whereas other countries that took the first places had received far fewer FDI in the same period.

2. Conceiving the questionnaire and collecting the results

To exceed these limits but also to better understand the specific of the Romanian case, we proceeded to a survey. This approach will help us to isolate with more precision the role of democracy, but also of other institutional factors like the rule of law, the corruption and the political stability, in the decision of foreign investment. Our survey was led on 62 French companies settled in Romania. Due to the fact that we did not have a proper sampling frame, because of the impossibility to identify all the French firms in Romania, the sampling was performed according to the non-probabilistic method. Under these circumstances we are aware of the fact that the sample does not compile with the statistical representatively condition. However, the usage and quality of the survey is justified through some arguments. First of all, the big French groups are part of the sampling. So, form the top 50 largest French groups in industry and services, 8 are part of our sample: Carrefour (2nd in top), Renault (9th), Véolia Environnement (11th), Alcatel (25th), Lafarge (27th), Groupe Danone (30th), Valeo (41st) and Schneider Electric (42nd). In addition to these comes BRD-Société Générale in the bank-insurance domain.

[8] If we test, for example the relation between religion and democracy, if there find that is a positive correlation this not means that religion is a defining criteria of democracy.

Second of all, 8 of the top 10 French investors in Romania have answered our enquiry. Considering the large share of these in the total French investment in Romania, we consider that the performed enquiry gives us a very close image of the reality of the French investments in Romania.

3. Survey results

As we have already seen, there are numerous econometrical studies that analyze the relationship between the institutional stability and FDI inputs. However, the conclusions we get from them are often contradictorily, because these studies are based either on quantity variables (the number of assassinations and revolutions, number of lost working days due to civil manifestations for estimating the political risk, for example), or on subjectively composites indexes. For these reasons, the correlation between the institutional stability and the FDI inputs is ambiguous. In order to overcome these methodological obstacles and to better understand the characteristics of the Romanian institutional environment, we have included in the survey some questions linked to this issue. We have therefore tried to find out which of the Romanian institutional characteristics are considered to be favorable by the French investors, and which of them are seen as obstacles. Using the enquiry as a work method has given us more precise responses to each of them.

We group the results in two categories of factors for FDI inputs: attractive (Table 2) and repulsive (Table 3).

Table 2.

Survey results regarding the importance of political stability as an attractive factor for FDI inputs in Romania (%)

	Not important (1)	Little importance (2)	Medium importance (3)	Important (4)	Very important (5)	Not or little important (1+2)	Important (3+4+5)
Political stability	17,7	6,5	29	41,9	4,8	24,2	75,7

Source: our survey.

We observe in the Table 2. that the French investors involved in the enquiry consider the political stability as an important variable for 75,7% of cases. The obtained result confirms the fact that French investors appreciate stability as an important factor for uncertainty reduction.

At the same time, the institutional instability perceived by the French investors comes as an important obstacle in the Romanian business environment (see Table 3).

Table 3.
Survey results regarding the importance of institutional instability as a repulsive factor for FDI inputs in Romania (%)

	Not important (1)	Little importance (2)	Medium importance (3)	Important (4)	Very important (5)	Not or little important (1+2)	Important (3+4+5)
Legal instability	6,5	-	25,8	24,2	43,5	6,5	93,5
Bureaucracy	3,2	8,1	12,9	38,7	37,1	11,3	88,7
Corruption	3,2	11,3	9,7	16,1	59,7	14,5	85,5
Private property respect	25,8	21	12,9	9,7	30,6	46,8	53,2

Source: our survey.

Out of the variables of this table, the legal instability is seen as the most important repulsive factor for developing a business in Romania (93,5% of the answers), followed closely by the bureaucracy (88,7%) the corruption (85,5%) and the private property respect (53,2%).

The legal instability is a specific factor of transition economies. It expresses the delays in the reform process, offering to the institutional environment an arbitrary character which accentuates the investors' insecurity feeling. Indeed, the managers we have come in contact to consider that the most disturbing problem of the institutional environment in Romania is linked to the state's weakness, accompanied by a *„climate of uncertainty in the legal, commercial and financial field"*[9]. This insecurity has its source mainly in the judicial system, the creator of a *„imprecise, volatile legal framework, that favors interpretations and arbitrary administrative procedures"*[10]. French managers of the sampling have accused, first of all, the difference between the formal judicial frame and its actual appliance. Furthermore, they have criticized the large number of laws and emergency orderlies adopted without consideration of the necessities of the business environment and accompanied by ambiguous, often contradictory, appliance instructions, emended through *„imprecise and even contradictory emergency order"*[11]. The fiscal code, for example, which became effective on January 1st 2004, after a long elaboration period, was emended through an emergency orderly only few months later, the same year.

These malfunctions of the institutional environment create conditions for the development of bureaucracy and corruption, other factors considered to be

[9] Information obtained during the research.
[10] Information obtained during the research.
[11] Information obtained during the research.

important by the French firms of the sampling. We observe that the factor „corruption" is by far the highest percentage determinant in a list of repulsive factors (for 59% of the firms it is the most important obstacle (column 5)). Indeed, the managers we have contacted consider that, in spite of the intents of the liberal administration after December 2004, the fight against corruption has not come to represent a great success.

The administration is seen as a discontentment source for the French managers that we have come across. These consider that the administration is neither „*efficient, nor competent, nor neutral*"[12]. Most often, the financial administration is criticized, seen as a repressive bureaucracy, preoccupied only with performing surprise inspections and interpreting the laws to the detriment of the tax payer. Therefore, some managers have doubts concerning the fairness of the inspections performed by „*underpayed fiscal inspectors, motivated mainly by the number of inspections carried out*"[13].

After this presentation of the results of the enquiry regarding the stability of the institutional environment, we can observe that the variables it consists in are mainly perceived as determinant factors of the investment in Romania. However, not all act as attractive factors. The most of them, especially corruption, legal instability and bureaucracy, are seen as main obstacles.

Conclusion

The impact of stability seems far from being obvious. In some cases, an economical crisis can even favor the appearance of some investment opportunities, under the condition that it is accompanied by institutional stability, which offers guarantees regarding long term perspectives. From this point of view, the existence of a rule of law has proven to be primordial. This offers guarantees concerning the protection of intellectual property, which is an important point in the eyes of investors. For the same reason, investors prefer less corrupted countries. Corruption influences not only FDI flows but also the contents of the technology transfers; because investors are reticent in transferring advanced technologies when they associate with local partners, and, as, on the other hand, corruption incites them to associate in order to reduce transaction costs; we come to the conclusion that corruption reduces advanced technology transfers. Democracy, however, even if presented as a logical consequence of a rule of law may have a variable effect on FDI flows, according to the strategic orientation of the investors; if its role is important

[12] Information obtained during the research.
[13] Information obtained during the research.

and positive in the case of market oriented FDIs, it proves to be less important for FDIs in search of resources.

In this paper we analyzed the role of institutional stability as implantation factor for the French firms in Romania. The results of the survey show as that the variables who describe the institutional stability are mainly perceived as determinant factors of FDI inputs in Romania. However, not all act as attractive factors. Some of them, especially corruption, legal instability and bureaucracy, are seen as main obstacles. On one hand, we can consider that their action has discouraged potential investors. On the other hand, how do we explain the fact that other investors invested in Romania, despite these obstacles?

A first answer would consist in saying that their appreciation of the Romanian context evolved with their installation in the country. In other words, their answers translate a disappointment with regard to what they waited before their installation in the country. In that case, the absence of any progress risks to be translated by their retirement, in time, of Romania. The second answer would consist in saying that they knew the Romanian context such as it is, before their implantation decision, and their presence in Romania is explained by the fact that the weight which they give to the attractive factors (political stability) is more important than that give to the repulsive factors (legal instability, corruption, bureaucracy, etc.).

It is also possible to consider from this results that the purpose of a country analysis, made previous to an investment and who takes these factors into consideration, is not to stop the implantation, but foremost to foresee the situations that might appear, as well as the potential costs of transaction, in order to estimate more precisely the rate of expected returns.

Finally, we consider that the present analyze is an useful exercise, because the results indicate us not only which are the institutional factors who attract foreign investors in Romania bat also which are the principal obstacles in the Romanian environment. In this way, our study tries to fill a gap in the literature on FDI in Romania and offers us some indications for the sense of reforms to do in the future.

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